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What if Water-Related Externalities are not Significant to Design BSMs?

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Session: Basin [Andes] and Benefit Sharing Mechanisms

Key Message

- (1) Water-related externalities are not always significant enough to create mechanisms to share benefits derived from these externalities.
- (2) There are alternative benefits derived from water that may yield high private and social revenues which may contribute to poverty alleviation in selected territories.

Summary

Both positive and negative externalities may deserve compensation to or from individuals/communities who experience the effect, when these effects are important or damage a property right. This is the typical case of important water storage infrastructure, water catchments for human consumption or water use for intensive and contaminating production activities.

However, not all externalities are significant to either who creates them or who experiences them. Economic effects of negative or positive externalities would need to be greater than the cost of internalizing it in order to generate compensation by any of the parties involved.

In the absence of a significant externality, water benefits could stem from optimizing on-farm water/soil use (increasing water/soil productivity). This alternative requires designing farming systems which yields private and social returns attractive to farmers (revenues) and to the society (social rate of

return). In the high Andes, additional requirements are temperature and radiation to increase biomass productivity increases as well as maximizing water use and complying product and factor markets. Social returns could positively affect poor strata through increasing labor demand/wages, producing by-products for local consumption or stimulating non-agricultural rural production activities.